MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/ 2022

BFN2054 – PORTFOLIO MANAGEMENT

(All Sections / Groups)

10 AUGUST 2022
9:00 am – 11:00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with **4 QUESTIONS**
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Write you answers in the answer booklet proved.

QUESTION 1 (25 MARKS)

a) Consider the data GIVEN IN THE TABLE BELOW for the JJ Value Fund and its benchmark the Russell Value Index. The YTM on T-bonds is 3.8%.

	JJ Fund	**Russell Value**	**Difference**
Mean Return	14.2%	12.7%	1.5%
Standard Deviation	25.9%	23.6%	3.9%*
Beta	1.21	1.14	NA
Downside Deviation (MAR = 2%)	16.2%	15.9%	NA

* Derived as the standard deviation of active return

Find the following risk-adjusted performance measures for the JJ Fund and the Russell Index: Sharpe ratio, Treynor ratio, Sortino ratio and Information ratio. (15 marks)

b) Explain how Sharpe ratio, Treynor ratio and Jensen's alpha are related to capital market theory and the Capital Asset Pricing Model (CAPM). (10 marks)

QUESTION 2 (25 MARKS)

a) What are the conditions for an efficient market? How closely are they met in reality? (10 marks)

b) Gruber Industries has an expected EPS of RM2.50 for next year and is currently selling at RM66 per share. If the required return on Gruber's stock is 9 percent, what is the present value of growth opportunities (PVGO) for the stock? What percent of Gruber's stock price is attributed to growth? (15 marks)

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QUESTION 3 (25 MARKS)

a) A client tells you that he strongly believes that interest rates will fall abruptly over the next six months. He asks you to recommend bonds for a portfolio to provide capital gains on the interest rate move. Generally, what would you suggest? What if he expected rates to rise? How would your answer be impacted if the yield curve has a steep downward slope? (10 marks)

b) Consider a junk bond with a 12 percent coupon and 20 years to maturity. The required return for this bond is 15 percent. What is its price? What would its price be if the required yield rose to 17 percent? 20 percent? (6 marks)

c) Define Zero Coupon bonds, Convertibles bonds and Consols. (9 marks)

QUESTION 4 (25 MARKS)

a) Distinguish between systematic and unsystematic risk. What are two other names for each? Give examples of each. (10 marks)

b) Explain what is efficient about the efficient frontier. (10 marks)

c) Given the following information, calculate the expected return of Portfolio ABC. Expected return of stock A = 10%; expected return of stock B = 15%; expected return of stock C = 6%. 40 percent of the portfolio is invested in A, 40 percent is invested in B and 20 percent is invested in C. (5 marks)

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